

FOR IMMEDIATE RELEASE
FEBRUARY 26, 2004

CONTACT: GLENN BRIERE
(617) 727-6200, EXT. 123

**DeNUCCI SAYS HEALTH CARE PROVIDER MISUSES
\$17.4 MILLION IN STATE MONEY**

State Auditor Joe DeNucci reported today a health care vendor misused \$17.4 million in state money over a 10-year period, largely because of its questionable relationship with a related company.

The findings of DeNucci's audit of Spectrum Health Systems, Inc., a state-funded private provider of public health services in Eastern and Central Massachusetts, include:

- Funneling \$10.2 million in excessive management fees to CiviGenics, a for-profit corporation started by Spectrum's former president in 1995, under a no-bid contract.
- Payment of nearly \$1 million in unallowable compensation to Spectrum's former chairman for undocumented consulting services provided while he was living in Alaska and Florida.
- Spectrum's questionable \$3.3 million purchase of a financially-failing clinic from CiviGenics.

Although the management contract with CiviGenics was supposed to reduce Spectrum's business expenses, DeNucci determined that Spectrum's board allowed the management fees to escalate well beyond the limits established by the state. For the six-year period beginning with fiscal year 1997 and ending with fiscal year 2002, Spectrum's management fees with CiviGenics soared from \$1.4 million to \$3.7 million, an increase of 160 percent. (When Spectrum's new president took over and ended the relationship with CiviGenics in 2002, budgeted management costs for the first year decreased by more than \$2 million.)

DeNucci also reported that Spectrum was unable to provide any documentation to substantiate that its former board chairman provided services that benefited its state programs during the 10-year period that he was receiving \$1 million in compensation while living in Alaska and Florida.

-more-

The purported purpose of the arrangement with the former chairman had been to help effect an orderly transition of Spectrum's management and to continue benefiting from services that the former chairman "uniquely" provided.

In addition, DeNucci questioned Spectrum's purchase of Boston Road Clinic in Worcester, a money-losing mental health facility, from CiviGenics for nearly \$3.3 million, which it financed over a 10-year period. The purchase price for the clinic included more than \$2.6 million in "goodwill" for which Spectrum received no tangible assets. During fiscal years 2001 through 2003, Spectrum charged the state approximately \$3.3 million in unallowable costs associated with this purchase.

Moreover, DeNucci's audit determined that the Worcester-based vendor diverted more than \$1.1 million in Massachusetts taxpayers' money to offset losses it incurred for programs it operates in Hawaii, Georgia, North Carolina and Rhode Island. The vendor used another \$1.5 million to cover other unallowable costs such as bad debts, excessive salary payments, depreciation expenses, fund-raising costs and free care.

DeNucci's audit was done at the request of the state's Operational Services Division after it uncovered potential irregularities based on its review of the uniform financial reports that all vendors are required to submit annually to the state. In the audit, DeNucci recommended that the state seek recovery of all of the state funds that were misused.

"It is unfortunate that Spectrum's former president created and used CiviGenics to derive excessive profits from the Commonwealth," said DeNucci.

DeNucci added that the current management of Spectrum, led by its new president, is attempting to eliminate the problems that have plagued the provider, starting with the severing of its ties with CiviGenics.

"Spectrum provides a variety of valuable public health services, but its past fiscal practices were filled with abuses of public funds," said DeNucci. "Some improvements have already taken place and I am hopeful that Spectrum will continue to be more fiscally responsible in the future."